

Message Text

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DRAFTED BY ARA:BR:JSLATTERY:LK

APPROVED BY S: THE SECRETARY

ARA:WDROGERS

S/S-O: ASHANKLE

COMMERCE: WCHAMBERLIN(SUBS)

INTERIOR:TRSCOLLON(SUBS)

EB/ORF/FSE:LRAICHT(DRAFT)

L/EB:CJPITMAN

----- 075616

O R 070332Z JAN 75

FM SECSTATE WASHDC

TO AMEMBASSY BRASILIA IMMEDIATE

INFO AMCONSUL RIO DE JANEIRO

AMCONSUL SAO PAULO

C O N F I D E N T I A L STATE 002685

EXDIS

E.O. 11652:GDS

TAGS:PFOR, ETRD, EMIN, BR

SUBJECT: LETTER FROM THE SECRETARY TO FOREIGN MINISTER
SILVEIRA

1. PLEASE DELIVER THE FOLLOWING LETTER TO SILVEIRA.
2. BEGIN TEXT: MY DEAR ANTONIO, THANK YOU FOR YOUR LETTER OF DECEMBER 27 IN WHICH YOU ASK ME TO LOOK INTO THE PROBLEM OF DECREASING US EXPORTS OF METALLURGICAL COAL TO THE BRAZILIAN STEEL INDUSTRY.

3. I HAVE ASKED MY STAFF TO EXAMINE THIS PROBLEM THOROUGHLY. PREVIOUS TO YOUR LETTER, WE HAD ALREADY BEEN IN TOUCH WITH THE US INDUSTRY REGARDING THIS MATTER. WE
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ARE NOW ANALYZING WHAT FURTHER ACTIONS THE US GOVERNMENT

MIGHT TAKE TO HELP RESOLVE THIS PROBLEM, AND WE WILL, OF COURSE, TRANSMIT YOUR CONCERN TO THE APPROPRIATE PEOPLE IN THE PRIVATE SECTOR. AS YOU KNOW, HOWEVER, THE GOVERNMENT HAS NO VOICE IN THE DISTRIBUTION OF EXPORT COAL SALES AND DOES NOT HAVE THE LEGAL AUTHORITY TO DIRECT PRIVATE U.S. FIRMS TO INCREASE THEIR EXPORTS TO ANY GIVEN COUNTRY AT THE EXPENSE OF DOMESTIC CONSUMERS AND OTHER FOREIGN BUYERS.

4. I HOPE THAT THE RECENT RESOLUTION OF THE COAL INDUSTRY'S LABOR PROBLEMS WILL RESULT IN MORE ORDERLY PRODUCTION AND IMPROVED AVAILABILITIES OF COAL TO THE BRAZILIAN STEEL SECTOR. IN THE MEANTIME, WE HAVE INTENSIFIED THE INVESTIGATION WHICH WE INITIATED WHEN AMBASSADOR ARAUJO CASTRO FIRST BROUGHT THE COAL PROBLEM TO THE DEPARTMENT'S ATTENTION IN AUGUST AND FOLLOWING YOUR MINISTRY'S AIDE-MEMOIRE OF DECEMBER 6, 1974. TO DATE, INQUIRIES BY THE DEPARTMENT OF COMMERCE HAVE NOT UNCOVERED ANY EVIDENCE THAT US SUPPLIERS DIVERTED COAL FROM LONG-TERM CONTRACTS TO THE HIGHER-PRICED SPOT MARKET. IF ANY EVIDENCE OF SUCH DIVERSION IS FOUND, THE COMPANIES INVOLVED COULD, OF COURSE, BE SUBJECT TO PRIVATE LEGAL ACTION.

5. THE GENERAL SUPPLY SITUATION IS EXTREMELY COMPLEX THIS YEAR. ALTHOUGH TOTAL EXPORTS OF COAL DURING 1974 ARE EXPECTED TO BE SIGNIFICANTLY HIGHER THAN IN 1973 ALL OF THAT GROWTH IS ACCOUNTED FOR BY EXPORTS FROM THE SPOT MARKET, SUPPLIED BY SMALLER AND MARGINAL FIRMS GENERALLY PROVIDING POORER QUALITY COAL. MOREOVER, ALTHOUGH DEMAND FOR HIGH-QUALITY COKING COAL INCREASED BECAUSE OF THE EFFECTS OF THE OIL CRISIS, PRODUCTION OF THIS COAL DIMINISHED DURING 1974 AS A RESULT OF NEW ENVIRONMENTAL AND SAFETY LEGISLATION. INDUSTRY SOURCES HAVE INFORMED US THAT PRODUCTION IN THE SPECIFIC RESERVES AND WORKINGS THAT WERE THE SUBJECT OF AT LEAST SOME OF THE LONG-TERM CONTRACTS WITH THE BRAZILIAN STEEL COMPANIES WERE SEVERELY REDUCED. AS A RESULT, US PRODUCERS OF THIS COAL WERE FORCED TO RATION THEIR PRODUCTION AMONG THEIR CUSTOMERS ON A PRO RATA BASIS.

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6. I HOPE THAT THIS INFORMATION WILL BE HELPFUL IN EXPLAINING THE BACKGROUND OF THIS PROBLEM TO YOU. I WILL CONTINUE TO PURSUE THIS MATTER AND WILL ADVISE YOU OF THE RESULTS OF OUR FURTHER INQUIRIES.

7. MY WARMEST REGARDS, HENRY. END TEXT. KISSINGER

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